

HOW TO PRIVATIZE HOUSING MANAGEMENT

A MANUAL FOR MUNICIPALITIES IN SLOVAKIA

Prepared for

East European Regional Housing Sector Assistance Project
Project 180-0034
U.S. Agency for International Development, ENI/EEUD/UDH
Contract No. EPE-C-00-95-001100-00, RFS No. 704



Prepared by

Marvin J. Price
Legum & Norman, Inc.

under subcontract to

The Urban Institute



THE URBAN INSTITUTE

2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

April 1997
UI Project 06610-704

TABLE OF CONTENTS

INTRODUCTION	1
MUNICIPALLY-OWNED HOUSING MANAGEMENT COMPANY PRIVATIZATION	1
Policies and Objectives	2
Management Audit	2
Request for Proposals	2
Evaluation Criteria	4
Evaluation Process	5
Final Agreement and Legal Documentation	6
SUMMARY	7
EXHIBIT A: SAMPLE OUTLINE FOR A REQUEST FOR PROPOSALS OR INVITATION FOR BIDS	9
EXHIBIT B: BID EVALUATION CRITERIA FOR HOUSING MANAGEMENT COMPANY PRIVATIZATION	15
EXHIBIT C: MANAGEMENT AGREEMENT	23

HOW TO PRIVATIZE HOUSING MANAGEMENT

A MANUAL FOR MUNICIPALITIES IN SLOVAKIA

INTRODUCTION

In many municipalities there is but one housing management company, and that company is the survivor of the pre-1991 housing system. As municipalities inherited the state-owned housing, so they also inherited the state-owned housing management enterprises. Under the old system the management companies had little incentive to control costs or to provide better services. Consequently, large amounts of money were spent on the housing stock each year, but the properties continued to be poorly maintained. Many of these companies continue to be poorly operated, and in addition to providing poor service to the housing they manage, cause managerial and economic drain upon the municipalities themselves.

Many municipalities are moving to privatize their management firms in the hope of improving housing services as well as the internal operation of the management enterprises. Even after privatization, however, the newly privatized firm may still be the only housing management firm in town. Privatization is not the final step; it is the first step in the process of creating a proper environment to encourage better performance and greater efficiency through incentives and competition. And because the newly privatized firm will in all likelihood continue to manage the municipally-owned housing, the privatization should be undertaken carefully.

This memorandum addresses the key elements of housing service privatization and makes recommendations about how municipalities should approach them.

MUNICIPALLY-OWNED HOUSING MANAGEMENT COMPANY PRIVATIZATION

The key to a successful privatization of the housing management company is to have a clear, complete definition of the objectives of the privatization. Equally important is a thorough understanding of the enterprise being tendered for privatization. For evaluating and selecting prospective new ownership the municipality should adhere to the following basic steps of a competitive bidding procedure:

- The municipality at the city council level must establish its *policies and objectives*.
- A *management audit* must be performed on the entity to be privatized.
- The next step is to develop the *tender or request for proposals*.
- *Evaluation criteria* against which proposals will be judged must be developed.
- The *evaluation process* must be established.
- The *final agreement and legal documentation* must be finalized with the selected bidder.

These steps are explained in more detail below.

Policies and Objectives

It is important that the city determine what its *policies* will be regarding the privatization of the housing management company. These policies must be endorsed at the highest level and should be made public. One very important policy decision is whether or not the municipality desires an ownership interest in the surviving entity and if so how much. The municipality must determine its position on non-local bidders or bidders without prior housing management experience.

Determination of the *objectives* of the privatization is equally important. One can safely say that one objective will probably be to achieve comparable or improved management of the municipality's housing stock. Consideration of this objective should lead to a definition of what skills, abilities and assets the successful bidder will probably need in order to fulfill that objective. There may be any number of objectives for the privatization. It is imperative that the municipality identify them.

Management Audit

The true purpose of the *management audit* is to define what is being privatized, so that the municipality knows what it is selling and the bidders know what they are bidding on. Reports should be developed on the current technical and financial performance of the housing management company. The organization must be defined. Assets must be listed. Any assets used in the business but not included in the sale should also be identified. Because the business services the public housing, detailed descriptions of the managed housing stock must be developed.

Request for Proposals

Preparation of the *tender* or *request for proposals* requires great precision. It is the written set of specifications that provides the bidders information about what they are bidding upon. It establishes the criteria which bidders must satisfy in order to be considered. It defines the format in which bids or proposals must be submitted. And it describes how bids will be evaluated. The request for proposals creates an objective method for soliciting and analyzing competing bids. As can be seen it requires the work product of the preceding steps.

The request for proposals for privatization solicits bids from prospective owners of the municipal housing management company. The successful bidder will own the company which manages the municipality's housing stock. In short, through this privatization process the municipality is in fact most probably selecting its housing management company. Therefore the request for proposals should also be precise regarding the types of services that the municipality expects from the housing manager and the tasks that the manager is expected to perform. For example, the municipality may specify that the management firm must keep financial records for the buildings, repair major building systems (heating, electrical, plumbing, ventilation), clean public spaces in the building, and maintain the landscaping of the building site.



There are other issues that the municipality must also consider in the request for proposals:

- What is the schedule for privatizing the management company? What should be the deadline for submitting proposals? When will the final selections be made?
- Are there any municipal requirements or certifications that a prospective owner must meet? Must the new ownership have any licenses or registrations in order to be eligible for consideration? Is there any type of insurance that the firm must carry?
- What skills does the municipality want to emphasize? Are certain skills, experience, or education so important that a prospective bidder should not respond unless he meets these criteria?
- How will the selection process work? Will the municipality require only written proposals? Will there be interviews? Will bidders have to provide a specified number and type of references? If the bidder is managing other properties already, will the municipality want to inspect them?
- How will the municipality evaluate the responses? Will all qualifications be considered equally important, or will some qualifications be given more weight than others? Will a rating system be used with points assigned to each criteria?
- Will there be a required format for the proposal? Where and when must the proposals be submitted? How many copies of the proposal must each bidder provide?

- How will prospective bidders be contacted? Is there an existing list of “pre-qualified” bidders who will be notified by mail? Will a general notice be posted at the city hall or in the newspaper?
- How will prospects receive the request for proposals? Can they request a copy by mail? Must they pick up copies at a specified time and location? Will the prospects have to pay for the request for proposals?

The municipality should also include in the request for proposals all of the necessary information about the properties managed by the company. This should include a physical description of each property, a summary of its financial condition, the ownership structure of the property, and any other special conditions that might affect the management of the property.

An outline of a typical request for proposals is presented in Exhibit A. The information in the request for proposals should be presented in a clear and concise manner so that there is no confusion on the part of the bidders. The municipality also wants to state the information in a way that requires the respondents to think about their responses, and not simply repeat information that has already been provided. The goal of the request for proposals is to solicit as much relevant information as possible and to have that information presented in a way that shows whether or not the bidder has a clear understanding of what the municipality needs.

As part of the distribution of the request for proposals, the municipality may wish to hold a Pre-Bid Conference. This is a meeting at which specific questions regarding the request for proposals may be answered and additional information provided by the municipality. A tour and inspection of the housing management company's facilities and one or more properties may also be provided at that time (or this may be done later). The municipality may make attendance at the Pre-Bid Conference a requirement for all firms who wish to submit a proposal.

Evaluation Criteria

It is strongly recommended that in the interest of a most successful privatization the bids, or responses to the request for proposals, be evaluated within the context of a comprehensive discipline. The evaluation should be divided into four distinct parts. The first of these, the Technical, focuses upon the bidder and its qualifications. The second, Financial/Legal, analyzes the economic (costs, revenue, investment) aspects of the bid and the legal structure proposed. The third addresses the Transition of Control. The fourth is a Personal Interview of the bidder by the evaluation body. Recommended evaluation methodology is detailed in Exhibit B.



Evaluation Process

Once the municipality has received all of the proposals, it must begin the process of selecting one or more bidders with whom to negotiate. In developing a selection process, the goal is to create a fair and equitable opportunity for all eligible bidders to demonstrate their ability to meet the municipality's expectations. To achieve this goal, a detailed selection process should be set up in advance that clearly explains how the proposals will be judged and how the decision of which firm(s) with which to negotiate will be made.

The following items should be considered in establishing the evaluation process:

- Will the decision be made by a committee? If so, who will be on the committee? How will the decision be reached (consensus, a formal vote, etc.)?
- Will there be interviews of all bidders? For the finalists? How will the interviews be conducted? Will there be oral or written questions? Will the bidder be asked to make a presentation? How long will the interview take?
- Will references be required as part of the selection process? Written or oral? Who will contact the references? Will the references be asked a predetermined set of questions?

One possibility is to use a "points" system for ranking each of the proposals. A maximum number of points could be assigned to different parts of the proposal, and the committee could decide how many points to award to each candidate. This provides a more objective basis for ranking each proposal, and allows different parts of the proposal to be weighted according to importance. For example, a firm could receive a maximum of 50 points for its qualifications but only a maximum of 20 points for its proposed work plan.

An interview can be an important source of information for choosing a bidder. It provides the municipality an opportunity to obtain more details on the bidder's proposal. A set of questions should be prepared in advance and a written record kept of the interviews. This will allow an assessment of the selection process should questions arise afterwards.

Regardless of how the final decision is reached, it is important that the selection process be as straightforward and open as possible. This is especially true since public funds are involved. People must have confidence that the process of privatizing the housing management company is fair and honest.

Final Agreement and Legal Documentation

Selection of a bidder does not complete the process, because it yet remains to negotiate a final agreement with the selected bidder and to prepare the appropriate legal documentation. The municipality must designate the individual or individuals who will negotiate on its behalf. Thought must be given to priorities and objectives. What are the sensitive issues? On which points is the municipality willing to be flexible and where does it draw the line? The negotiators must be given instruction so that they know where they can compromise and where not.

Assuming a successful negotiation, agreements must be reduced to writing in legal form. The municipality must designate legal and technical experts to represent its interests. If it does not have on staff individuals with sufficient expertise, outside expertise should be retained.

The first order is to document the privatization itself. That transformation can take many different forms. It may involve a sale of stock in an existing corporation; it may call for the creation of a new corporation; perhaps there will a sale of assets to an existing entity.

If as part of the privatization negotiation the transformed company will manage housing owned by the municipality, then particular attention must be paid to the contractual relationship between the municipality as owner of the housing and the company as manager of the property. Although the municipality may own a part of the transformed company, its ownership will in all probability be a minority share. The municipality will have lost the control over the management company which it previously had. The municipality must rely for control upon its Management Agreement with the housing management company which specifies the terms and conditions under which the company will manage the housing. This agreement becomes the most important document between the parties and survives the privatization transaction.

The management agreement or contract should stipulate the length of the agreement and the fee for housing management services. It should enumerate the responsibilities of the owner vis-a-vis those of the housing management company, and should include a list of duties that the management company should carry out. This is the basis upon which the housing manager will ultimately be evaluated. The management agreement should also specify the reporting requirements of the management company, and it should establish the limits of liability of both parties.

The management agreement should contain an enforcement provision that gives the owner recourse should the housing manager not meet minimum performance standards or otherwise violate the terms of the contract. In this case, the owner may warn the manager to take appropriate steps to correct the problem. If the housing manager continues to violate the contract, however, then the contract should allow the owner to fine the manager or to cancel the management agreement altogether.

The management agreement may call for the housing manager, in addition to its property management responsibilities, to participate in the privatization of the public housing. As manager of the public housing, the management company is uniquely qualified to assist the municipality in the privatization of the housing. Many municipalities will find this a very cost effective means of accomplishing the task.



The management contract is the foundation upon which the relationship between the property owner and the housing manager is built. In order for this relationship to be successful, it is important that the contract be well written, legally enforceable, and truly acceptable to both parties. A complete model contract is presented in Annex C.

SUMMARY

The use of private management firms is a first step toward improving the poor housing management situation which has carried over from the pre-1991 system. Privatization of municipally-owned housing management companies is one step toward creating private management firms and may encourage the formation of new private firms.

The newly privatized housing management firm may be for some period of time the only management firm available to manage the municipally-owned housing. Therefore, the municipality has a dual responsibility in the privatization process. First it must maximize the current economic benefit to the public from the privatization while at the same time striving to ensure the long term success of the firm by selecting the most qualified bidder. Second it must focus upon its relationship as owner of the public housing with the privatized firm as manager of the public housing.

EXHIBIT A

SAMPLE OUTLINE FOR A REQUEST FOR PROPOSALS OR INVITATION FOR BIDS

I. INTRODUCTION

The introduction states the purpose of the Request for Proposals, along with the following details:

- Due date
- Pre-bid conference (if any)
- Procedures for inspecting the facilities of the company and the properties it manages prior to proposal submission
- The format for submission (how many copies, where proposals should be submitted, etc.)

II. DESCRIPTION OF THE COMPANY

This section describes in detail the company being privatized. Information provided should include:

- Present legal structure of the company
- Organizational structure and staffing of the company
- Financial condition of the company, including current financial statements
- Detailed listing of all assets belonging to the company and identification of any not included in the tender
- Identification of assets used in the business but not owned by the company and whether or not those assets are included in the tender
- Unique characteristics of the company or its business

III. SCOPE OF WORK

This section contains a detailed description of all services that the management company is expected to provide to the properties it manages for the municipality. For example:

- Maintenance of all major building systems
- Cleaning and maintenance of public spaces and building grounds
- Repairs of certain items in tenants' apartments
- Collection of rents and other charges from tenants; paying utility bills
- Marketing and arranging leases for commercial spaces
- Financial record keeping
- Preparation of monthly reports for the owner

IV. DESCRIPTION OF THE PROPERTIES PRESENTLY MANAGED BY THE COMPANY

This section should include a brief description of each property managed by the company:

- Location of buildings
- Building types
- Number of residential units
- Number of nonresidential units
- Physical systems (type of heating, etc.)
- Unique conditions related to financial structure, ownership, physical conditions, or residential or nonresidential population (For example, is there a need for substantial capital investment? Is it the intention of the municipality to privatize any of the properties? Are there common spaces being utilized for nonresidential use?)

V. SELECTION PROCESS

Description of the method for selecting a bidder:



- The criteria for evaluation and their relative importance
- Legal requirements to be met by the bidder (insurance, licenses, certifications)
- Interviewing requirements
- Requirements for references
- Bidders who will be given priority based on their type of organization

VI. CONTRACTUAL CONDITIONS

This section explains the basic conditions of the privatization of the company and its management contract with the municipality, including:

- Sale of stock versus sale or lease of assets
- Expected price and terms of payment
- Anticipated municipal ownership in the privatized entity
- Length of contract term for management of municipally-owned spaces
- Structure of management fee (Flat fee per space? Percentage of rent revenue?)
- Expected management company role in housing privatization
- Other contractual conditions that the management company should consider when responding to the Request for Proposals

VII. TECHNICAL PROPOSAL

This section outlines what should be included in the management company's proposal. It states what management capabilities the bidder must possess and asks the bidder to demonstrate his skills in these areas. Requests for the following types of information may be included:

1. Experience and Qualifications

The bidder should be asked to state how long he has been providing similar services and what it is about his experience that makes him the best candidate to manage the company. He should also be asked to indicate what makes him uniquely qualified to serve as the manager of the

properties. Typically, the bidder would be expected to provide the following information in this section:

- The length of time that the bidder has been providing relevant services to other clients
- The bidder's professional credentials
- The types of legal and insurance requirements the bidder meets
- Demonstration that the bidder can assume the responsibilities within the required time frame
- Indication that the bidder has staff available who are qualified to operate the company and manage the properties

2. Management Approach

This part asks the bidder to explain in general terms how he approaches the management of property and how this approach will serve the needs of the specific properties described in the Request for Proposals. The owner would expect the bidder to include:

- Organizational information regarding how supervision will be handled within the company and how staff will be allocated
- General listing of management services with a brief overview of how they will be approached by the bidder



3. Management Services

This section asks the bidder to provide details regarding approach, procedures, and specific services that the company will provide. Typically, the bidder would be expected to provide the following:

a. Financial Services

- How bank accounts are handled
- Procedures for rent collection (where rents are paid, what is done if a tenant does not pay)
- Procedures for paying bills (who does it, how is the process monitored, what records are kept)
- Method for developing budgets
- Name and qualifications of staff responsible for planning capital investment
- Description of record keeping systems

b. Administrative Services

- Operating procedures for company (office hours, procedures for tenants to register a complaint)
- Job descriptions and responsibilities of administrative staff
- Types of reports provided to the owner (resident lists, copies of correspondence, financial reports, repair information, etc.)
- Method of monitoring and enforcing building rules and leases

c. Maintenance Services

- Procedures for handling emergencies
- Plan for routine and preventive maintenance
- Experience and involvement in energy conservation
- Description of work order system used by company
- Procedures for soliciting bids and selecting vendors and contractors
- Property inspection schedules and procedures
- Inventory control procedures

As part of this section, the owner may request that the bidder provide sample copies of financial, administrative, and maintenance reports.

4. Staffing

The bidder should provide specific information regarding how the management company would allocate staff for the properties (how many, how much time, job descriptions)

5. References

The owner should request names of relevant references. This should include owners of any other properties that the company manages.

6. Cost Proposal

The bidder should indicate how much the management fee will be and what services or staff are not included as part of that fee

EXHIBIT B

BID EVALUATION CRITERIA FOR HOUSING MANAGEMENT COMPANY PRIVATIZATION

The evaluation should be divided into four distinct parts. The first of these, the Technical, focuses upon the bidder and its qualifications. The second, Financial/Legal, analyzes the economic (costs, revenue, investment) aspects of the bid and the legal structure proposed. The third addresses the Transition of Control. The fourth is a Personal Interview of the bidder by the committee.

A. TECHNICAL

1. *Qualifications of the bidder.* This section addresses the important matter of the bidder's ability to acquire and manage the business.
 - a. *How long in business.* Is this an established entity? Does it have a track record?
 - b. *Experience in the business areas specific to the tender.* Does the bidder have experience managing residential and nonresidential property? Does the bidder have experience operating a company?
 - c. *Customers, current and past.* To whom does the bidder now or has it in the past provided similar services? What has that experience been? Can it be related to the situation at hand?
 - d. *Work approach/philosophy of the bidder.* What can be determined from the bidder's experience about how it undertakes the management of a company and the provision of services? What might the municipality expect?
 - *Distinguishing/unique features.* Does the bidder have any qualities, philosophies or skills which set it apart from other bidders?
 - e. *Staffing.* This topic addresses the capabilities of the bidder.
 - *Adequate to achieve objectives.* Does the bidder have the staff capability to successfully undertake the operation of the housing management company?
 - *Organization structure.* How is the bidder organized and how will the management of the housing management company fit within that structure?
 - *Experience of staff.* What are the qualifications of the bidder's staff and how will they relate to the operation of the company? Will these personnel be involved in the company? How will the company benefit from their experience and skills?

- *Time with firm.* What is the longevity of employment of these people with the bidder? How stable and established is the staff?
 - *Percentage of time to be devoted to the municipality.* What will be the availability of this staff and its skills to the company? How much time will these personnel spend in the company's operation?
 - *Prior contract experience.* What prior experience does the bidder have in working under long term agreements to provide management and services? Does it have experience in contracting with municipal or state governments?
 - *Financial soundness.* Does the bidder have capital? Can it fulfill the financial obligations implied in the tender? Does it have a track record of successful (profitable) operation?
2. *Work Plan.* This second and equally critical element of the technical evaluation addresses the bidder's mission and how they propose to accomplish it. Having established that the bidder is qualified, we now ask the question: What is it they propose to do and how will they go about it?
- a. *Organization structure.* How does the bidder propose to organize the staff of the housing management company to fulfill the mission?
- *Utilization of current staff.* How will they utilize the current staff of the company? Will they retain all, some or none of the present employees? What will be the positions and responsibilities of those retained?
 - *Additional staff (skill) requirements.* What skills and abilities does the current staff lack, and what is the bidder's plan to overcome these deficiencies?
 - *Motivation and training.* What are the bidder's plans for training existing and new staff to improve and increase their skills and abilities? How will they introduce new methods and technologies? How does the bidder propose to motivate employees to do their jobs better and to improve their skills and knowledge?
- b. *Financial management.* It is important to understand that with respect to the housing management company financial management applies both to the management of the company and to the assets managed - the residential and nonresidential spaces.
- *Developing annual operating budgets.* The bidder must have a program for producing annual operating budgets for the company and for each asset managed. There must be provision for participation in the budget process by the owner of the managed assets.



- *Developing capital repair/improvement budgets.* Of particular importance to the managed assets the bidder must have a program for producing capital repair and improvement budgets, again with the participation of the owner.
 - *Periodic financial statements.* The bidder must have a system to produce periodic financial statements (not less than quarterly) for the company and for each asset managed.
 - *Operating statement.* The operating statement is a summary of revenues received and expenses paid during the relevant period. It shows as a conclusion the net profit (or loss) and cash flow of the particular entity.
 - *Balance sheet.* This report is a schedule of the assets and liabilities for the particular entity. The difference between the value of assets and liabilities is the net worth or book value of the entity.
 - *Disbursements summary.* This report lists in detail (date, payee, amount, description) the disbursements made during the period.
 - *Receipts statement.* This statement lists in detail the cash receipts for the period.
 - *Financial narrative report.* As its name implies this is a narrative discussion of the financial information included in the above-described reports.
 - *Billing and collection of income.* It is important that amounts due be billed properly. More importantly these amounts must be collected and properly accounted for.
 - *Paying vendors and suppliers.* Timely and accurate payment to suppliers for goods and services and proper accounting therefor is important to the local economy.
 - *Financing capital repairs/improvements.* The bidder should be able to plan for and assist in securing capital funds.
- c. *Purchasing and inventory management.* Inventory requires capital; maintaining inventory ties up capital which might be otherwise utilized.
- *Policies and guidelines.* What are the bidder's policies regarding the establishment of appropriate inventory levels for efficient operation of the business? How are purchasing decisions made?
 - *Vendor/supplier/contractor selection process.* How are vendors selected? What process ensures fair competition, a high level of service and fair prices?

- *Inventory control program.* How will inventories be tracked as to location, count and condition? What safeguards will ensure against theft, damage or deterioration?
- d. *Facilities maintenance.* Again the discussion here addresses both facilities of the company and facilities managed by the company.
 - *Preventive maintenance.* What program of routine, repetitive maintenance does the bidder propose to maximize the useful life of components and systems?
 - *Inspection and maintenance of building and system components.* What program of periodic inspection and follow up repair does the bidder propose?
 - *Establishing maintenance priorities.* What is the bidder's procedure for prioritizing maintenance to most effectively utilize resources?
 - *Work order system.* Does the bidder have a work order system to initiate and track completion of maintenance work.
 - *Procedures regarding routine repair and maintenance.* What program does the bidder propose to respond to tenant requests for routine repairs and maintenance?
 - *Procedures regarding emergency repairs.* What will be the bidder's procedure for responding to emergency repairs?
 - *Hazardous condition abatement.* What is the bidder's program for abating hazardous conditions?
 - *Security.* What are the bidder's programs to maximize security at facilities and buildings managed?
- e. *Owner relations.* The bidder will be engaged in a service business, that of managing property and systems for an owner. The relationship between the successful bidder and the owner is critical to the long term success of the transformation.
 - *Communication.* What means of regular communications with the municipality does the bidder propose? What frequency?
 - *Coordination.* How does the bidder propose to coordinate its activities with the policies and objectives of the city?
 - *Reporting.* What periodic and consistent reporting requirements does the bidder propose or is the bidder willing to accept?



- *Performance Measurement.* Does the bidder propose a system by which the city can measure its performance?
- f. *Tenant/consumer relations.* The company's business involves the management of housing owned by the city and occupied by citizens of the city. Relations with these customers cannot be taken lightly.
 - *Communication.* What methods of regular communication with customers does the bidder propose, other than the periodic presentation of invoices?
 - *Responsiveness.* What is the bidder's policy about responding to requests, complaints or problems of its customers?

B. Financial/Legal

1. *The transformed company.* What does the bidder propose regarding the structure of the transformation?
 - a. *Legal form.* What will be the legal form of the entity which survives the transformation?
 - b. *City ownership share.* What will be the ownership share of the municipality in this entity?
 - c. *Price to be paid by bidder.* What price will the bidder pay for its share in the entity?
 - d. *Capitalization.* How will the surviving entity be capitalized and in what amount?
 - e. *Operating budget.* Does the bidder propose an operating budget for the entity and is there adequate capitalization to support such a budget?
2. *Disposition of tangible and intangible assets of the housing management company and of the city.* The company has on its accounts certain tangible and intangible assets which it uses in the operation of its business. It also may use tangible and intangible assets of the city. What does the bidder propose regarding the disposition of these assets?
3. *Disposition of payable, receivables and contractual relationships of the company.* What does the bidder propose to do about the payables, receivables and contractual relationships which exist at the time of the transformation?
4. *Housing management fee schedule.* What fee schedule does the bidder propose to charge for management of housing?

5. *Proposed management contract(s) for housing management and energy supply management.* What are the terms and conditions of the contractual agreements proposed by the bidder? Most importantly, how do they compare to the terms and conditions required by the city?
6. *Contract duration.* What term or length of contract does the bidder propose, and what are the reasons therefor?

C. Transition/Transformation

1. *Transition timetable.* Has the bidder proposed a schedule for the implementation of the transformation?
 - a. *Legal organization/reorganization.* How and by what schedule does the bidder propose to negotiate and complete the legal organization or reorganization proposed?
 - b. *Payment.* What is the schedule proposed for payments to the city under the proposal?
2. *Management agreement(s).* What timeframe and procedure does the bidder propose regarding negotiation and execution of the management contracts?
3. *Operations.* This is the most important aspect of the transformation and needs the most detailed planning. What is the bidder's plan for taking control of the day to day operations of the company and implementing any proposed changes. What are the plan's provisions to minimize disruption and uncertainty among employees and to ensure no disruption in the provision of services?

D. Interview

No recommendation should be made by the evaluation committee without having first interviewed the bidders being considered. All bidders need not be interviewed, only those in final consideration.

1. *Presentation.* Each interviewee should be required to make a presentation before the committee. We suggest the committee provide guidelines to the presenters regarding information and subjects they want included in the presentation, as well as material they may not want included. A time limit should be established.
2. *Response.* The committee should request from each bidder being considered such additional information and materials it requires, but which were not included in the initial offer, in order to make a proper evaluation. The ability and willingness of the bidder to respond to this request is an important consideration.

EXHIBIT C

MANAGEMENT AGREEMENT

THIS AGREEMENT is made and entered into this ____ day of _____, 19__ (The "Effective Date"), by and between _____ ("OWNER") whose principal office is located at _____, and _____ ("AGENT"), whose principal office is located at _____

TABLE OF CONTENTS

	Page
I. AGENCY	1
II. DUTIES OF AGENT	2
III. LIMITATIONS ON AGENT'S AUTHORITY	5
IV. ADVANCES BY AGENT	6
V. SEGREGATION OF OWNER'S FUNDS	6
VI. FIDELITY BONDS	6
VII. FINANCIAL REPORTS	6
VIII. OWNER'S UNDERTAKINGS	7
IX. AGENT'S COMPENSATION	7
X. TERM OF AGREEMENT	8
XI. INDEMNIFICATION	9
XII. SUCCESSORS AND ASSIGNS	9
XIII. NOTICES	9
XIV. NONROUTINE DUTIES OF AGENT AND COMPENSATION THEREFOR	10
XV. AGENT'S DUTIES IN THE PRIVATIZATION OF MUNICIPALLY-OWNED HOUSING	10
XVI. GOVERNING LAW	13
XVII. ENTIRE AGREEMENT	13

OWNER AND AGENT (the "Parties") agree as follows:

I. AGENCY

Owner hereby engages Agent to manage, on an exclusive basis, the residential and nonresidential space identified on the attached Addendum A (the "Property"). Agent hereby agrees to manage the Property on the terms set forth in this Agreement from and after the Effective Date.



II. DUTIES OF AGENT

Agent shall, on behalf of, and as agent for, and at the expense of, Owner (except as otherwise expressly provided in this Agreement), perform the normal and usual duties and functions of an exclusive managing agent in connection with the Property, subject at all times to Owner's general supervision and control. The specific duties and responsibilities of Agent shall include the following:

A. Collection of Monies; Legal Proceedings. Agent shall diligently collect all rents and other income payable with respect to the Property, and shall take all necessary action to enforce compliance with the terms of all Leases. When Agent deems necessary, Agent shall institute legal actions or proceedings to collect delinquent rent and recover possession of any leased space, provided, however, that in the event legal action is required, the filing and prosecution thereof will be subject to Owner's prior written approval and the costs thereof shall be borne by Owner. With owner's prior written approval, Agent may settle, compromise or release such actions. Agent shall have the right to pay, from the Owner's funds in Agent's custody, all expenses in connection with the foregoing, including court costs and attorneys' fees.

B. Compliance with Agreements and Legal Requirements. Agent shall promptly notify Owner in the event that it receives notice that any condition of the Property (or any part thereof) fails to meet the standards of any agreement relating to the Property, or of any law, ordinance, rule or regulation of any governmental authority having jurisdiction over the Property. Unless instructed otherwise by Owner, Agent shall take such actions as may be necessary to comply with said notice.

C. Maintenance or Repair. Agent shall be responsible for the repair and maintenance of the Property in a clean, safe and orderly condition and for ensuring compliance with all governmental statutes, ordinances, rules, and regulations applicable to the operation of the Property. Unless otherwise provided for in an Approved Budget for the then current Fiscal Year, the expense to be incurred for any single repair, charge or purchase shall not exceed the sum of _____ without prior authorization by Owner, except in the case of an emergency, in which event Agent shall promptly notify Owner of the repair, charge or purchase and the cost thereof. Agent shall use its best efforts to make all repairs and to obtain quality materials, supplies and services at the lowest available cost.

D. Utilities. To the extent the tenants of the residential and nonresidential spaces in the Property are not required to contract and pay for such services, Agent shall contract and pay for from available funds on Owner's behalf electricity, telephone, water, steam, sewage, gas, and any other public utilities as shall be necessary and advisable for the proper operation of the Property.

E. Supplies and Services. Agent shall purchase all materials and supplies as provided for in an Approved Budget and shall perform or provide all services reasonably necessary for the care, protection, repair, maintenance, and operation of the Property and the prevention of waste, damage or injury thereto, such as fuel delivery, refuse collection, custodial and security services, window cleaning, and pest control, provided that Agent shall not contract for any services whose estimated cost would exceed the cost specified therefore in the Approved Budget without the Owner's prior consent thereto. Agent may at any time, for any

reason, and without Owner's consent, terminate any existing service contract on Owner's behalf, provided that such termination does not result in the payment by Owner of any penalty or termination fee.

F. Owner's Employees. As provided for in the Approved Budget, Agent shall hire the necessary on-site personnel (the "On-site Employees") to fulfill the responsibilities under this agreement as its own employees. All costs to employ, carry and provide benefits shall be borne by the Owner. Agent agrees to use reasonable care in the selection of all On-Site Employees and to pay them only those salaries and benefits specified in the Approved Budget.

G. Property Manager. Agent shall provide to Owner, at Agent's cost and expense, the services of a supervisory Property Manager, who shall not be required to devote his or her full time to the management of the Property, but may be engaged in other activities designated by Agent.

H. Agent's Employees. Agent shall use the facilities of its central office in managing the Property and shall be responsible for paying the salaries of all of its personnel, including its supervisory Property Manager, whose duties pertain to the management of the Property.

I. Taxes and Employee Insurance Forms. Agent shall prepare and file all forms for insurance and taxes, as well as other forms required by governmental authorities for the On-Site Employees, and shall make all payments of such taxes and insurance required to be made thereafter as they become due.

J. Escrows. Upon Owner request, Agent shall pay (or establish escrows for the payment of) real estate taxes, assessments and other public charges imposed on the Property.

K. Files. Agent shall establish and maintain complete and orderly files containing correspondence, rent records, payroll records, insurance policies, Leases, receipts, unpaid bills, vouchers, and all other documents and papers pertaining to the management and operation of the Property, all of which shall be and remain the property of Owner and shall be available for inspection by Owner or its representative at any time during Agent's regular business hours.

L. Books of Account. Agent shall establish and maintain in accordance with generally accepted accounting principles, consistently applied, accurate and complete books of accounts pertaining to the management and operation of each building or block comprising the Property (the "Books of Account") with proper entries of all receipts, income, and disbursements pertaining to the Property, which Books of Account shall be available to Owner and its representatives for inspection at any time during regular business hours. Owner and its representative shall have the right to a private audit of the Books of Account, provided that such audit is made at Owner's expense and at a reasonable time after due notice to Agent. Owner agrees to cause its auditor to furnish to Agent's Comptroller promptly after completion thereof a copy of any report prepared, and any year-end adjustments made, as a result of an annual audit, compilation or review conducted by or on behalf of Owner of the Books of Account. Agent shall retain the books of Account relating to each Fiscal Year for at least three (3) years following the expiration of such Fiscal Year.



M. Payment of Expenses. Agent shall review all bills and statements received for services, work, supplies, and other expenditures incurred, by or on behalf of Owner, in connection with maintenance, operation and ownership of the Property, and shall pay or cause to be paid when due and payable, all expenses specified in the Approved Budget or otherwise approved by Owner.

N. Insurance. Owner shall maintain in force and effect in connection with the Property (and shall review periodically) all hazard, liability, and other insurance carried and shall obtain such other insurance coverage as Agent reasonably deems necessary to protect Owner's and Agent's interests in the Property. Agent is authorized to settle insurance claims for damage to the Property resulting from fire or other casualty; provided, however, that where the amount involved exceeds _____ (as such amount may be adjusted from time to time by owner), no such settlement shall be made without Owner's prior written consent. Agent upon Owner request in writing will obtain insurance coverage.

O. Financial Reports. Agent shall prepare and furnish financial reports and statements in accordance with the provisions of Section VII of this Agreement.

P. Investments. Agent shall monitor the balances in all accounts of the Owner related to the Property to assure that (i) sufficient funds are available to meet current and anticipated obligations, and (ii) Agent has invested funds not in use in order to maintain required availability while generating maximum feasible interim income.

Q. Rules and Regulations. With the prior approval of Owner, Agent shall promulgate all rules and regulations governing the conduct of tenants on the Property. Agent shall make every effort to enforce all Rules and Regulations in accordance and within all governing laws.

R. Security Deposits. Agent shall hold any security deposits received pursuant to the provisions of any Lease in accordance with the terms of such Lease and the provisions of applicable law, and shall ensure that such security deposits earn interest in the manner and at the rate required by applicable law. All interest accrued over the amount required by applicable laws shall be to the benefit of the Owner.

III. LIMITATIONS ON AGENT'S AUTHORITY

Notwithstanding any other provision of this Agreement to the contrary, without first obtaining the approval of Owner, Agent shall not (i) incur any liability (regardless of amount) maturing more than ONE (1) year from the date of creation thereof, (ii) enter into any Lease having a term of more than ONE (1) year, or (iii) enter into any contract or agreement pertaining to the management, operation, maintenance, or repair of the Property having a term of more than ONE (1) year.

S. Annual Budget. Sixty (60) days prior to fiscal year end, Agent shall prepare and submit to Owner a budget for the operation of each building or block comprising the Property for the following fiscal year. Agent's executive personnel and representatives of Owner shall review and approve such budgets, subject to such modifications thereof as Owner shall reasonably deem necessary. Upon approval each such

budget shall constitute the approved operating budget (the “ Approved Budget”) for the respective building or block for the succeeding fiscal year.

T. Consultations with Agent. If requested by Owner, once per month at a mutually satisfactory time, Agent shall make appropriate members of its staff available to meet with Owner to review and discuss such other matters as may arise in connection with Agent's operation of the Property. Qualified members of Agent's staff shall be available during normal business hours for reasonable consultations concerning the operation and management of the Property.

U. Marketing and Rent-up. Agent shall be responsible for reletting vacant residential and nonresidential spaces. As necessary Agent will develop and implement marketing and outreach campaigns to assure full occupancy of the Property. Agent shall approve or reject applications for rental based on findings and established criteria. Each prospective tenant will be given fair and equitable evaluation. Prior to occupancy the tenant will be allowed to inspect the space and complete a checklist which is submitted to Agent for completion of any deficiencies. All tenants, prior to move-in will be advised of the lease terms, various procedures and policies with respect to service requests, emergency procedures, and rent collection. Each tenant will be given a brief orientation with respect to their space and the facilities offered. A resident handbook explaining tenant and management rights and obligations will be prepared by Agent and approved by Owner and given to all residents.

IV. ADVANCES BY AGENT

All payments made by Agent on Owner's behalf shall be paid out of funds held by Agent from time to time for the account of Owner or otherwise provided by Owner. Agent shall not be obligated to make any advance to or for the account of Owner or to pay any amount except out of funds held for or provided by Owner. If the rentals and other funds held by Agent for Owner (after deducting Agent's fees) are not adequate to make such payment, Agent shall promptly notify Owner so that Owner will have adequate notice to advance the necessary funds to Agent to make timely payments.

V. SEGREGATION OF OWNER'S FUNDS

All monies received by Agent for or on behalf of Owner (less any sums properly paid or deducted by Agent) shall be held by Agent, in trust, for the account of Owner and segregated from any other funds held by Agent and shall be deposited in a special account or accounts as specified by Owner. If security deposits or other funds are required by law to be held in a segregated account and are, by law, allowed to be held by Agent, such security deposits or funds shall be held by Agent in a separate special account. Agent shall remit to Owner monthly, all funds (other than security deposits and other refundable deposits) held by Agent for Owner's account and not applied to the payment of Owner's expenses or obligations as provided in this agreement, after, (i) deduction of the Fee due to Agent pursuant to Section IX this Agreement, and (ii) retention in such special account(s) of such reserves as Owner may authorize for working capital and other contingencies.

VI. FIDELITY BONDS



Agent shall ensure that employees of Agent, who handle or who are responsible for Owner's money, have been bonded, at Agent's expense, by a reputable surety company in amounts and on terms required by law reasonably satisfactory to Owner, and (ii) On-Site Employees who handle or who are responsible for Owner's money at the Property, have been bonded, at Owner's expense, by a reputable surety company in amounts and on terms required by law and reasonably satisfactory to Owner.

VII. FINANCIAL REPORTS

Agent, at its cost, shall prepare for each building or block comprising the Property and furnish Owner the following financial reports:

A. Within twenty five (25) days after the end of each quarter, a detailed statement of all cash receipts and disbursements received and made during that quarter in connection with operation of the building, together with a list of the accounts payable and receivable as of the last day of such quarter and a projection of the net cash flow (or deficit) anticipated by Agent for one (1) quarter subsequent to such quarter, including a description of any anticipated expenditures in excess of those projected in the Approved Budget for the balance of the current Fiscal Year. These statements shall be prepared on a comparative basis with the Approved Budget and, when available, on a comparative basis with the corresponding period in the preceding calendar year.

B. Within twenty five (25) days after the end of each quarter, a detailed listing of vacancies and delinquencies.

C. Within sixty (60) days after the end of each Fiscal Year, a statement of income and expenses showing the results of operations for said Fiscal Year, which statement shall be prepared in a form reasonably acceptable to Owner and its auditor.

D. Annually prepare for each building or block comprising the Property a Capital Budget for approval by Owner. In every instance the Capital Budget will be prepared as a multi-year capital improvement plan.

E. Agent shall provide Owner along with each of the above described financial statements a narrative description explaining the achieved financial results and relating the planned measures to solve problems. Each budget (operating and capital) will be accompanied by a narrative report detailing the assumptions and conditions underlying the budget.

F. Agent shall distribute excess operating funds to Owner on a monthly basis provided Agent shall be allowed to maintain an operating float which amount shall be agreed upon by the Parties.

VIII. OWNER'S UNDERTAKINGS

Owner or its representative will meet with Agent on a regular basis to review the reports described in Section VII of this Agreement, to discuss modifications of policies and procedures relating to the Property, and to formulate plans to meet seasonal and other anticipated future operating changes at the Property.

IX. AGENT'S COMPENSATION

A. In consideration of the performance of its duties under this Agreement, Owner shall pay to Agent a fee (the "Base Fee") on the first day of each month beginning _____ and continuing through the term of this agreement. The Base Fee for each month shall be equal to the sum of (i) for the residential space managed _____ times the number of residential spaces managed pursuant to this agreement for that month, plus (ii) for the nonresidential space managed _____ times the number of square meters of nonresidential space managed pursuant to this agreement for that month.

B. The Base Fee for each month shall be adjusted by the following amounts (the "Incentive Adjustments"):

(i) In the event that the actual rents collected during the preceding month amount to _____% or less of the amount attributable and due for that month, then in such event a reduction equal to _____% of the Base Fee otherwise due and payable will be applied to the Base Fee.

(ii) An amount equal to _____% of rents past due by more than _____ days which were collected during the preceding month will be added to the Base Fee.

(iii) For prompt reletting and occupancy of vacant residential and nonresidential spaces a bonus shall be added to the Base Fee pursuant to the following schedule:

<i>Vacancy Period</i>	<i>Bonus Amount</i>
Less than 30 days	One month's rent
30 to 60 days	3/4 month's rent
60 to 90 days	1/2 month's rent
More than 90 days	No bonus

Agent's compensation may be changed from time to time upon mutual agreement by the Parties.

X. TERM OF AGREEMENT

A. The term of this Agreement shall commence on the Effective Date and shall continue in force and effect for _____ and after such date and thereafter from month-to-month until renewed under mutually agreed upon terms or until terminated by either party with not less than ninety (90) days' written notice to the other party, provided, however, that this Agreement may be terminated by Owner with not less than sixty (60) days' written notice to Agent in the event of any failure by Agent to perform any of Agent's obligations under this Agreement; provided further, however, that Agent shall have the right to remedy any such failure within thirty (30) days after its receipt of written notice by Owner identifying the nature of the failure, unless such failure cannot reasonably be cured within such thirty (30) day period, in which event no failure shall be deemed to exist so long as Agent has diligently commenced, and shall thereafter diligently and in good faith pursue the curing of, and cure such failure.



B. As soon as reasonably possible after the effective termination date of this Agreement, Agent shall turn over to Owner the Books of Account and all other records relating to the Property (copies of which may be made and retained by Agent), a final accounting of unpaid Fees (if any) due to Agent under this Agreement, all funds of Owner then remaining in Agent's possession or control less all payments due to Agent, as agreed to by both parties in writing and such authorizations and letters of direction addressed by Agent to tenants, occupants, suppliers, employees, banks, and other parties as Owner may reasonably require. Owner shall furnish Agent with reasonable security against any outstanding obligations or liabilities that Agent may have reasonably incurred hereunder. Agent and Owner shall cooperate in the transfer of management responsibilities from Agent to Owner or Owner's designee. Any rights and liabilities of the parties that may not be determined as of the effective date of termination of this Agreement shall be presumed to have survived such termination date, and the parties have the right to enforce the same.

XI. INDEMNIFICATION

A. Agent and Owner agree to indemnify and hold the other party harmless from and against any and all liabilities, damages, claims and judgments, including litigation expenses and attorneys' fees arising out of the negligence, intentional misconduct or criminal activity on the part of the indemnifying party (or the negligence or intentional misconduct or criminal activity on the part of the indemnifying party's employees, agents or representatives). The indemnity obligations herein are conditioned upon prompt notification to the other party and any applicable insurance carrier of the claim, tender of the defense and full cooperation of the party requesting the indemnity.

B. The provisions of this Section XI shall survive the termination of this Agreement but this shall not be construed to mean that the liability of either the Owner or the Agent shall not survive as to other provisions of this Agreement.

XII. SUCCESSORS AND ASSIGNS

This Agreement shall be binding upon, and inure to the benefit of and be enforceable by, the respective personal representatives, heirs, successors, and assigns of the parties hereto, except that Agent may not assign its interests as Agent hereunder without the prior written consent of Owner, and only in connection with a merger or corporate reorganization. The prohibition hereunder against assignment shall include any assignment that would otherwise occur by operation of law, merger, consolidation, reorganization, transfer, or other change of Agent's corporate structure, or an assignment to or by a receiver or trustee in any bankruptcy, insolvency, or other proceedings, but shall not include any assignment to any entity wholly-owned by or under common control with Agent or controlled by the same person or persons owning a majority of the shares of Agent. Consent by Owner to any assignment shall not constitute a waiver of the requirement for such consent to any subsequent assignment.

XIII. NOTICES

All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or if mailed, properly addressed and postage

prepaid, to Owner and Agent at their respective addresses set forth on the first page of this Agreement, or at any other addresses as may be given by any party to the other parties by notice in writing pursuant to the provisions of this Section. Such notices, if sent by mail, shall be deemed to have been given at the time of mailing. Such notices, if delivered personally, shall be deemed to have been given at the time of delivery.

XIV. NONROUTINE DUTIES OF AGENT AND COMPENSATION THEREFOR

In the event Owner and Agent agree upon additional duties for Agent to perform over and above the routine duties described herein, those additional duties and the compensation for each will be elaborated in an addendum to this Agreement.

XV. AGENT'S DUTIES IN THE PRIVATIZATION OF MUNICIPALLY-OWNED HOUSING

A. Strategic Preparation. Agent shall assist owner in establishing the strategy which owner will pursue in the process of transferring ownership of municipally-owned housing stock. Agent shall assist owner in establishing housing objectives, such as the percentage of housing it wants to retain for social purposes and in which form it wants to retain said housing (i.e., in entire blocks or dispersed among privatized blocks). Agent shall help Owner to determine the desired level of uniformity of ownership of apartments within blocks (desired percentage of privatization within a block) and how to achieve it.

B. Organizational Preparation. Agent shall establish an office to manage the privatization process. Agent shall develop a program to publicize privatization in the form of regular submissions to local newspapers and other media, leaflets and other printed material, public meetings of residents and regular information days for the public at the privatization office. Agent shall develop the necessary privatization documentation, including but not limited to the agreement for transfer of ownership, technical documentation necessary for registration of property rights in the cadastre, and the agreement to form an association of owners. Agent shall develop a data base of the municipally-owned housing stock, including for each block or building a list of all residential units and nonresidential spaces in the house. Agent shall ascertain for the jurisdiction in which privatization will occur any environmental, construction, geodesic or other factors which may affect the privatization process, as well as the procedures for registering property rights in the cadastre and registering agreements forming associations of owners.

C. Legislative Preparation. Agent shall ensure before commencing a sales program that the municipal council will have approved the following general mandatory ordinances: (i) an ordinance specifying the portion of apartments the municipality (Owner) will retain in its ownership to meet housing needs of the underprivileged (social housing), (ii) an ordinance specifying the terms of payment of the price of an apartment, nonresidential space, or site, and (iii) an ordinance establishing a community housing development fund and defining its purpose.

D. Technical Preparation. Agent shall for each municipally-owned block, apartment, nonresidential space, site or other property which may be privatized, obtain all technical and economic data about the property, including project documentation, construction documents, the age of the property and its value upon construction completion. Such documentation, if not in the possession of Agent, will be found at the

properties themselves, the organizations which designed and built them, the municipal archives or the environmental authorities.

E. Organization of Sale. Agent shall on behalf of Owner organize and execute the sale of those apartments, nonresidential space and other property designated by Owner to be sold.

(i) Agent shall identify and confirm all property which is by law excluded from sale, such as special purpose apartments, apartments in special purpose buildings, apartments in family houses, apartments intended for clearance, nonresidential spaces which were originally common areas or facilities of buildings, or property which does not belong to the municipality.

(ii) Agent shall identify and recommend to Owner those blocks which should be privatized, based upon the expressed interest of the tenants therein. Agent shall in each building designated for privatization select one or two tenants from among those who express interest in purchasing who shall be contact persons during the sale process to ensure transfer of information between seller and purchasers.

(iii) Agent shall define as prescribed by law for each building designated for privatization the premises being sold - the apartments and the nonresidential premises. Agent shall define the common areas of the building, the common facilities of the building and the common areas and appurtenances of the building which are not a part of it (such as garages or other detached structures), as well as the site upon which the building is located, which may include land surrounding the building. Agent shall compute for each apartment or nonresidential space its common or joint interest in the common areas and in the land.

(iv) Agent shall calculate the purchase price for each apartment or nonresidential space to be sold in accordance with applicable law and the direction of Owner. Agent shall obtain the basic data required to make the purchase price calculation, including the original acquisition price of the building, the age of the building, any State subsidy provided for comparable co-operative apartments (as relevant) and the area of the premises. The purchase price shall contain a component representing the price of a joint ownership share in the land, which price shall be determined in accordance with applicable law.

(v) Prior to preparing a contract for transfer of ownership of an apartment or nonresidential space Agent shall confirm that the tenant desiring to purchase that property is entitled under the law to purchase it.

(vi) For each premises being sold Agent shall prepare for execution by seller (Owner) and purchaser the contract for transfer of ownership. The contract will be prepared in compliance with and will contain all information required by the applicable law. The executed contract will be submitted by Agent to the appropriate cadastre, along with an application for registration of property rights to the apartment or nonresidential premises which will also be prepared by Agent in accordance with applicable law.

F. Education and Training. Agent shall develop a program to train and educate new owners about ownership, utilizing printed materials and public meetings. Subject matter will include (i) definition of the property transferred: apartment, nonresidential premises, common areas, common facilities, appurtenances,

sites, etc., (ii) property rights: sole ownership, joint ownership, etc., (iii) the rights and obligations of ownership, and (iv) management.

G. Owners' Association. For each block (building) privatized Agent shall prepare pursuant to applicable law an "Agreement on an Association of Owners of Apartments and Nonresidential Premises" to which all new owners will become signatories. This agreement, along with a proposal for registration of the association in the register of associations maintained by the appropriate circuit authority, will be submitted to said circuit authority for registration. Agent shall organize and convene the organizational meeting of the owners' association.

H. Management. At the time a block is privatized and the Owners' Association formed, Agent shall cease to be the manager of the property, except for any continuing duties pursuant to this privatization section. The Management Agreement will be amended to reflect deletion of the property, and Agent's compensation will be adjusted accordingly. Notwithstanding the above, to the extent that Owner retains ownership of apartments or nonresidential spaces in the privatized block, Agent shall continue to manage those premises for Owner, and the Management Agreement, including Agent's compensation, will be amended accordingly. Agent may solicit the Owners' Association of the privatized block for designation as manager of the property on behalf of the Owners' Association through an Agreement for the Exercise of Management.

I. Compensation for Privatization Services. Agent's duties under this section are in addition to its routine duties under the Management Agreement. For these privatization services Owner will pay Agent a fee (the "Privatization Fee") equal to _____. In addition to the Privatization Fee Owner will pay to Agent as earned the following incentives:

(i) For each building or block in which Owner's desired privatization percentage is exceeded, Agent will receive an incentive equal to _____.

(ii) In the event Agent completes Owner's privatization program ahead of scheduled completion, then in such event Agent shall receive for each month of early completion an incentive equal to _____.

XVI. GOVERNING LAW

This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with the laws of _____.

XVII. ENTIRE AGREEMENT

This Agreement contains the entire agreement between the parties relating to the management of the Property; all prior negotiations between the parties are merged into this Agreement and there are no other agreements or conditions between them other than as set forth in this Agreement. No change or modification of this Agreement shall be valid unless the same is in writing and signed by the parties hereto. No waiver



of any of the provisions of this Agreement shall be valid unless in writing and signed by the party against whom it is sought to be enforced.

IN WITNESS WHEREOF, the parties duly executed this agreement as of the day and year first above stated.

AGENT:

Date

By: _____

OWNER:

Date

By: _____